

Before the
Federal Communications Commission
Washington, D.C. 20554

RECEIVED
OCT 26 1999
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matters of:

Ameritech Corporation Telephone Operating)
Companies' Continuing Property Records Audit)
)
Bell Atlantic (North) Telephone Companies')
Continuing Property Records Audit)
)
Bell Atlantic (South) Telephone Companies')
Continuing Property Records Audit)
)
BellSouth Telecommunications' Continuing)
Property Records Audit)
)
Pacific Bell and Nevada Bell Telephone)
Companies' Continuing Property Records Audit)
)
Southwestern Bell Telephone Company's)
Continuing Property Records Audit)
)
US West Telephone Companies' Continuing)
Property Records Audit)

CC Docket No. 99-117

ASD File No. 99-22

ERRATUM

On October 25, 1999, BellSouth Corporation and BellSouth Telecommunications, Inc. ("BellSouth") by and through their attorneys, filed Reply Comments with the Commission regarding the above-referenced proceedings. Upon review, BellSouth discovered several typographical errors in its Reply Comments. With this Erratum, BellSouth submits the attached corrected pages and requests the Commission to replace these pages with those that are in BellSouth's original Reply Comments. The first error occurs on page 2, footnote 2, third line. The text should read "extrapolate an error." The second error occurs on page 3. Footnote 5

No. of Copies rec'd 0150
List ABCDE

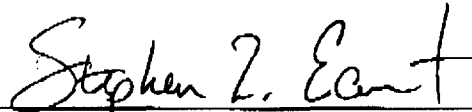
should be deleted in its entirety and should be moved to page 4, line 3. The third error is on page 14, lines 14 and 15. The brackets around "which is also known as the square curve" should be deleted, and commas should be inserted in their place. The fourth error is on page 24. The word "proceeding" should be changed to "preceding".

With this filing, BellSouth corrects the errors in its Reply Comments.

Respectfully submitted,

BELLSOUTH TELECOMMUNICATIONS, INC.
BELLSOUTH CORPORATION

By their Attorneys:

A handwritten signature in cursive script, reading "Stephen L. Earnest", written over a horizontal line.

M. Robert Sutherland
Stephen L. Earnest

Suite 1700
1155 Peachtree Street, N.E.
Atlanta, GA 30309-3610

(404) 249-2608

Date: October 26, 1999

I. Introduction and Summary

The comments filed by AT&T and MCI, the only entities filing comments other than three state public service commissions (“PSCs”)² and the entities actually being audited,³ offer nothing insightful regarding the issues the Commission invited comment on in the *Notice*. Indeed, most of the comments offer no concrete factual conclusions, but instead tell the Commission that things are “likely” to have occurred or the alleged missing assets “almost certainly” had a substantial impact on rates. AT&T and MCI ask the Commission to accept on faith what they themselves cannot support. It is therefore imperative that the Commission separate facts from mere speculation. The facts are: (1) the audit was based on a flawed statistical sampling design that cannot yield, no matter how well executed, reliable results; (2) the audit procedures were not properly designed to test for the complex equipment and records maintained by the Bell operating companies (“BOCs”); and (3) the audit results, as flawed as they are, have no material impact on rates. Although AT&T and MCI attempted to obfuscate these issues, nothing in either parties comments persuasively counters the support that BellSouth and others have provided for these facts. Their comments are a Trojan horse sent into this proceeding as a gift for the Commission to support the unsupportable. When analyzed, however, they are quickly revealed as not being what they purport to be.

² The PSC’s for Florida, New York, and Illinois filed comments. Florida believed that potential problems could exist in the CPR, but agreed with the BOCs that the statistical sampling was flawed and could not be used to extrapolate an error. New York supported the findings in the audit reports. Illinois stated that it needed more information before it could provide detailed comments.

³ BellSouth finds compelling that these were the only entities filing comments. For all the publicity surrounding this issue, the lack of comments, *i.e.*, the lack of interest, only confirms that the Commission should not prolong the foolishness of these audits any further.

AT&T and MCI basically ignored the Commission's request for information regarding the issues set forth in the *Notice* and simply used their comments to attack the audited entities. Indeed, a large percentage of the pages filed by AT&T and MCI focused on how the auditors actually scored or re-scored different sampled items for Bell Atlantic. Not one of the issues in the *Notice*, however, asked for comment on the minutia of such matters.⁴ While BellSouth certainly disagrees with the scores assigned to some of the sampled items in its audit, arguing over the scoring of particular items misses the point – the audits were not designed to produce the results reported in the audit reports. As BellSouth stated in its response to the staff's audit report and in its comments in this proceeding, the audits were fundamentally flawed in their design. Thus, even if they had been scored perfectly the results would be unacceptable.

Regarding the remainder of AT&T and MCI's comments, it appears the mountain labored and brought forth a mouse. They each devoted space to the sampling design and even found a statistician, who works for AT&T, to agree with the statistical methods and findings of the staff. The statistician, however, could not address the most glaring problem in the sampling results for investment – *a 49% margin of error*. His silence comes as no surprise. Nothing can be said to atone for such an error. Their comments also supplied an affidavit of an individual certified public accountant that discussed the propriety of the audit procedures. His comments,

⁴ MCI made a Freedom of Information Act ("FOIA") request to see the information used for such scoring and re-scoring of sample items in all of the BOCs audits. The Common Carrier Bureau ("Bureau") granted MCI's request. All of the BOCs, except Bell Atlantic, filed an application for review of the Bureau's release of this highly proprietary information. MCI's entire justification for seeking access to the raw audit data requested is contained in a single sentence: "In order to address the issue of whether the rescoring methodology used by the Bureau auditors was valid and reasonable, interested parties must be able to examine, on an item-by-item basis, the auditors' scoring decisions and the material the RBOCs submitted in support of their requests to 'rescore' an item." Issue No. 2 sought comment on: "The validity and reasonableness of the methodology used by the Bureau's auditors..." *Notice* at 3. Thus, the

however, must be considered in light of the fact that a majority of the largest accounting firms in the world have gone on record in this proceeding stating that many of the procedures were inadequate and undermine the creditability of the audit process. Significantly, these firms⁵ provided their statements in an ex parte letter to the Commission independent of any BOCs' comments. The net sum of AT&T and MCI's comments is they provide nothing substantively new to the information already available to the Commission, nor are they persuasive in their attempt to undermine the BOCs' arguments made throughout the audit process.

Finally, BellSouth implores the Commission to use this proceeding to initiate a rulemaking to forbear from the CPR rules. The environment in which they were created no longer exists. Price cap regulation and increased competition have placed the BOCs in a position that they should be able to manage their assets pursuant to market conditions, not rate of return regulation. The CPR rules, however, are a Procrustean bed that inhibits such management. Accordingly, the Commission should be forward looking and remove these past vestiges of out-of-date regulation.

II. AT&T and MCI Glossed Over the Major Flaws in the Statistical Sampling Plan

From the very beginning stages of the audit reporting process, one of BellSouth's chief criticisms has been the inaccuracy evidenced in the statistical sampling. This inaccuracy was directly the result of four flaws that pervasively infected the sampling results. BellSouth, as did

only issue as to which comment was sought related to the methodology used by the Bureau, not the accuracy of the individual scoring decisions made by the auditors.

⁵ The five largest accounting firms in the world, known appropriately as the "Big 5", are Arthur Andersen ("AA"), PricewaterhouseCoopers ("PWC"), E&Y, KPMG Peat Marwick, and Deloitte & Touche.

untimely retirements that are alleged in the audit reports.²⁷ For example, the Ameritech illustration used a delayed retirement amount that was 20% of investment. This is ten times the extrapolated amount of alleged missing investment from the BellSouth audit.²⁸ Ameritech's calculations are merely a simplistic example which demonstrates the self correcting nature of remaining life depreciation.

Second, Snively makes unrealistic assumptions regarding important criteria affecting its calculations. Specifically, Snively used a square survivor curve in its analysis. A square survivor curve assumes that all equipment in a vintage retires at the end of its projected life. In reality, equipment retires every year from multiple vintages and a portion of the investment in a vintage generally survives past the projection life. It is well recognized within the industry that a square survivor curve does not occur. Indeed, Snively should have been aware that a square curve is unrealistic and would skew its results. In AT&T's Notes for Engineering Economic Courses, which Snively cites in its Report, AT&T discusses various survivor curves which were developed from actual experience but specifically states that the rectangular curve, which is also known as the square curve, "... is seldom if ever found in real life"²⁹ AT&T explained why the rectangular, or square, curve is not representative in the situation in which Snively used it saying:

[The] rectangular curve would not normally be representative of the life characteristics of a large mass of plant, because it assumes that all retirements occur at one point in time. The rectangular survivor curve is

²⁷ Ameritech assumed \$500 million in investment with a \$300 million reserve and an average remaining life of 4 years. Ameritech then assumed \$100 million, 20% of the investment, were delayed retirements.

²⁸ The alleged missing assets based on the extrapolation from the audit report for BellSouth was approximately 2%.

²⁹ Notes for Engineering Economics Courses, American Telephone and Telegraph Company, Engineering Department, 1966, p. 121.

VII. Conclusion

Based on the preceding, the Commission should dismiss this proceeding with no further action.

Respectfully submitted,

BELLSOUTH CORPORATION AND
BELLSOUTH TELECOMMUNICATIONS, INC.

By their Attorneys:

/s/ Stephen L. Earnest

M. Robert Sutherland

Stephen L. Earnest

BellSouth Corporation
Suite 1700
1155 Peachtree Street, N.E.
Atlanta, GA 30309-3610

(404) 249-2608

Date: October 25, 1999

CERTIFICATE OF SERVICE

I do hereby certify that I have this 26th day of October 1999 served the following parties to this action with a copy of the foregoing ERRATUM by hand delivery or by placing a true and correct copy of the same in the United States Mail, postage prepaid, addressed to the parties list on the attached service list.



Lenora Biera-Lewis

SERVICE LIST
CC Docket No. 99-117
ASD File No. 99-22

Magalie Roman Salas*
Office of the Secretary
Federal Communications Commission
445 12th Street, S.W.
Counter TWA 325
Washington, DC 20554

International Transcription Service, Inc.*
1231 20th Street, NW
Washington, DC 20554

Ameritech
Leander R. Valent
9525 West Bryn Mawr
Suite 600
Rosemont, IL 60018

David M. Levy
David L. Lawson
James P. Young
Sidley & Austin
1722 I Street, NW
Washington, DC 20006

Attorneys for AT&T Corp.

Rudolph M. Kammerer
Christopher T. Shenk
Sidley & Austin
1722 I Street, NW
Washington, DC 20006

Mark C. Rosenblum
Peter H. Jacoby
Judy Sello
Room 3245H1
295 North Maple Avenue
Basking Ridge, NJ 07920

Attorneys for AT&T Corp.

Attorneys for AT&T Corp.

Edward Shakin
1320 North Courthouse Road
Eighth Floor
Arlington, VA 22201

Edward D. Young, III
Michael E. Glover
1320 North Courthouse Road
Eighth Floor
Arlington, VA 22201

*Attorney for the Bell Atlantic Telephone
Companies*

*Of Counsel for the Bell Atlantic Telephone
Companies*

Andre J. Lachance
GTE Service Corporation
1850 M Street, NW
Suite 1200
Washington, DC 20036

GTE Attorneys

Gregory J. Vogt
Suzanne Yelen
Wiley, Rein & Fielding
1776 K Street, NW
Washington, DC 20006

GTE Attorneys

Alfred G. Richter, Jr. & Roger K. Toppins
Jonathan W. Royston
One Bell Plaza, Room 3005
Dallas, TX 75202

*Attorneys for Southwestern Bell Tel. Co.
Pacific Bell and Nevada Bell*

Dan L. Poole
Suite 700
1020 19th Street, NW
Washington, DC 20036

Of Counsel for US West Communications,

John F. Raposa
GTE Service Corporation
600 Hidden Ridge, HQE035J27
Irving, TX 75038

GTE Attorneys

MCI Worldcom, Inc.
Alan Buzacott
1801 Pennsylvania Avenue, NW
Washington, DC 20006

James T. Hannon
Suite 700
1020 19th Street, NW
Washington, DC 20036

Attorney for US West Communications, Inc.

* *VIA HAND DELIVERY*